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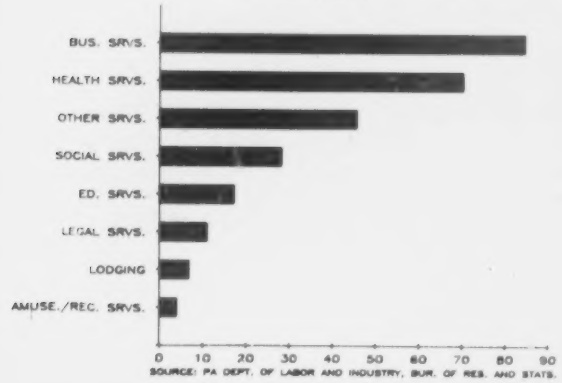
GOOD NEWS CONTINUES TO OUTWEIGH BAD

There appear to be few signs of any appreciable movement in the overall pace of economic activity in Pennsylvania based on information for February. This comes on the heels of several months of good news, leaving the economy on solid footing. **Recent hints of a slowdown in the national economy are perhaps a sign of things to come. The result may be a period of slower growth in Pennsylvania beginning during the next several months.**

Job trends in Pennsylvania's service industries are especially encouraging. February's above-average gains pushed job totals up by a seasonally adjusted 7,000 from January to another record. Through the first two months of 1989, service jobs have averaged 1,330,000. This represents a gain of 3.6 percent from year-ago readings. These industries have played a significant role throughout the course of the economy's current expansion. They have accounted for more than one-half of all new jobs generated since the onset of recovery in 1982/1983. Three industries account for the bulk of new service jobs during the recovery (chart): business services (84,500 new jobs through 1988), health services (70,300), and "other" services (45,700). The "other" component includes personal services.

Elsewhere in nonmanufacturing, **construction jobs rose slightly in February after seasonal adjustment in settling at an all-time high of 239,000.** Through the first two months of the year, construction employment is up 7.7 percent over 1988. **Signs continue to emerge which suggest that residential activity is in the process of slowing. The number of new housing units authorized by permit is off 3.3 percent from a year ago so far in 1989** (table). All of the decline has occurred in the multi-family sector, though the gains on the single-family side have been minimal. The growth in Pennsylvania housing permits has been stronger than in the nation for the past several years. In that growth so far this year has been stronger in the U.S., trends merit monitoring in the future to determine if a reversal is at hand.

PA SERVICE INDUSTRY JOB GROWTH: 1982/1983-1988
(in thousands)



The number of permits issued for new nonresidential projects during the first two months of 1989 are up one-fifth from a year ago. A large decline in permit authorizations for stores and other mercantile buildings, one of the largest nonresidential categories, has occurred. Gains elsewhere, including a 54 percent advance for industrial buildings, have pushed total authorizations forward. (Beginning with this issue of the *Survey*, nonresidential permit authorizations will be reported monthly. Because of the lack of comparable historical data, seasonal adjustment techniques cannot currently be applied to the permit data on both the residential and nonresidential sides. Analyses will be limited to year-ago comparisons.)

For nonmanufacturing as a whole, the gain in jobs from 3,936,000 in January to 3,963,000 in February is about 20,000 more than anticipated based on historical trends. The result is another record high after adjusting for normal seasonal ups and downs. Besides the two industries discussed above, all other broad nonmanufacturing industries recorded seasonally adjusted job gains in February.

February was not as impressive as earlier months in terms of factory activity and jobs. The month's respite, however, did not detract much from previous gains. There was a seasonally adjusted decline of 2,000 jobs in these industries as employment fell to 1,062,000. During this year's first two months, manufacturing job levels have averaged 7,500 more than in the same period in 1988. There are few developments of special importance with respect to other indicators of the factory sector's health such as hours worked and average earnings. Manufacturing output, as measured

1988-1989 YTD building permit growth: PA and U.S.
(Jan./Feb. 1988–Jan./Feb. 1989 percent change)

	PA	U.S.
Housing units	– 3.3	7.7
Single-family	1.4	7.3
Multi-family	– 23.9	8.4
Nonres. buildings	20.3	2.1
Industrial	53.6	8.1
Stores/mercantile	– 28.5	– 8.5

Source: U.S. Dept. of Commerce, Bur. of the Census

by the Pennsylvania Manufacturing Activity Index, dipped in February but still remains above year-ago levels. For the first time in several months, some indicators at the national level are showing signs of weakness. If these signals prove to be correct, it is likely that activity will slow in Pennsylvania, though not to any significant degree.

The Federal Reserve Bank of Philadelphia generates a manufacturing production index for a four-state area consisting of Delaware, New Jersey, New York, and Pennsylvania. Although they are not strictly comparable because of differences in construction methodologies, some insight is gained from a comparison of the PMAI and the Mid-Atlantic Manufacturing Index (chart). Since the onset of recovery in the early 1980s, these two measures have moved essentially in step with each other. At the least, a comparison of these two indicators suggests that manufacturing trends have been qualitatively similar in Pennsylvania and neighboring states. Both indicators have sensed a revival in manufacturing activity during the past two years. However, trends suggest that the turnaround may be a bit more pronounced in Pennsylvania than in neighboring states.

The resident employment/unemployment picture in February shows signs of stability. Both employment and the number of unemployed fell slightly. The jobless rate held

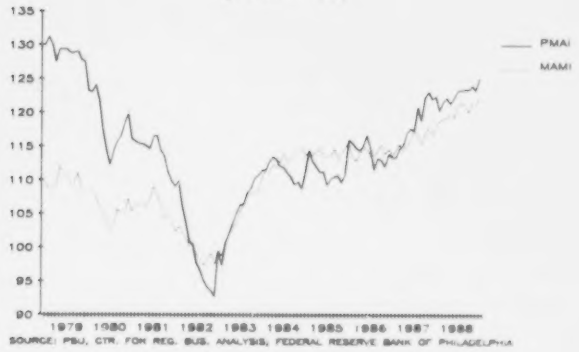
Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1989		1988	1989		1988	1989		1988
	Jan.	Feb.	Feb.	Jan.	Feb.	Feb.	Jan.	Feb.	Feb.
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	5,016*	4,991	4,926	5,082*	5,099	5,008	111.3*	111.7	109.7
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,936*	3,963	3,877	4,017*	4,037	3,952	124.6*	125.2	122.6
Mining	28	28	29	29	29	30	60.0*	60.2	62.1
Contract construction	212	209	195	239	239	225	129.7	130.0	122.4
Transportation	147*	148	145	149*	150	147	92.7*	93.1	91.4
Public Utilities	103*	104	105	104	104	105	102.9*	103.2	104.1
Wholesale trade	270	270	266	273	273	269	122.9	123.0	121.2
Retail trade	871	865	854	887	891	880	123.7*	124.2	122.7
Finance, insurance & real estate	292	293	289	295	296	292	135.6*	136.2	134.4
Service & miscellaneous	1,322*	1,339	1,295	1,347*	1,354	1,311	156.1*	157.0	151.9
Federal government	139	139	142	139	140	142	108.7*	108.9	110.9
State & local government	552*	570	559	559	564	553	95.9	96.8	94.8
Manufacturing									
No. of wage and salary jobs (thous.)	1,055	1,052	1,046	1,064	1,062	1,056	79.3	79.1	78.7
Durable goods	602	600	596	608*	607	603	75.0	74.9	74.4
Nondurable goods	453	452	450	457	455	453	85.8	85.6	85.2
Ave. wkly. hrs. worked by prod. workers	40.8*	40.6	40.7	40.9*	40.9	41.0	103.5*	103.6	103.7
Total wkly. person-hours worked (mils.)	29.7	29.4	29.1	30.0*	29.9	29.6	78.3*	77.9	77.1
Total wkly. payroll (mil. dols.)	309.9*	308.3	295.3	313.4*	313.6	300.1	139.5*	139.6	133.6
Average hourly earnings (dollars)	10.45	10.47	10.14	10.43	10.46	10.13	178.3*	178.8	173.1
Average weekly earnings (dollars)	426.36	425.08	412.70	426.36	428.51	415.98	184.3	185.2	179.8
Steel production (thous. tons)	1,183	1,088	1,065	n.a.	n.a.	n.a.	58.6	51.9	48.8
Industrial electric power sales (mil. kwh)	3,857	3,776	3,851	3,900	3,773	3,689	105.6	102.2	99.9
Mining									
Anthracite coal (thous. net tons)	233	234	268	301	301	327	61.6	61.6	66.9
Bituminous coal (thous. net tons)	6,044	6,066	5,649	6,020	6,208	5,529	85.4	88.0	78.4
Construction contracts awarded (mil. dols.)									
Total	550.0	525.1	573.7*	866.5	835.3	836.7*	269.3	259.6	260.1*
Residential building	298.5	231.5	277.2*	488.3	393.3	462.1*	347.0	279.4	328.3*
Nonresidential building	145.5	149.7	111.0*	199.5	222.5	158.7*	183.9	205.1	146.3*
Nonbuilding (utilities and public works)	106.1	143.8	141.0*	178.7	219.5	215.9*	246.6	302.9	297.9*
Housing units authorized by permit	2,436	2,710	3,026	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nonresidential bldgs. authorized by permit	866	904	863	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Retail Sales (mil. dols.)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,592	5,533	5,337	5,679	5,665	5,475	118.2	117.9	113.9
Unemployed									
No. of persons (thous.)	292	281	335	259	254	306	64.6	63.3	76.3
Rate (percentage of labor force)	5.0	4.8	5.9						
Rate, seasonally adjusted				4.3	4.3	5.3			
Civilian labor force, no. of persons (thous.)	5,884	5,814	5,672	5,938	5,919	5,781	114.1	113.7	111.0
Initial claims for unemployment benefits	132,682	78,866	88,638	78,551	85,572	90,152	54.9	59.8	63.0

Consumer Prices, all items	Urban Indexes (1982-84 = 100)			Percentage Change	
	1989		1988	Month Ago	Year Ago
	Jan.	Feb.	Feb.		
U.S. city average	121.1	121.6	116.0	+0.4	+4.8
Philadelphia	125.7	125.4	119.3	−0.2	+5.1
Pittsburgh	n.a.	117.9	113.3	n.a.	+4.1

[1] Total includes workers on strike. * = figure revised † = figure for January 1988 n.a. = data not available

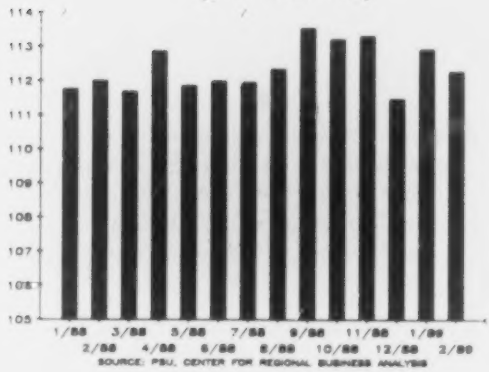
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

THE PENNSYLVANIA MANUFACTURING ACTIVITY INDEX AND THE MID-ATLANTIC MANUFACTURING INDEX: A COMPARISON (1982=100)



SOURCE: PSU, CTR. FOR REG. BUS. ANALYSIS, FEDERAL RESERVE BANK OF PHILADELPHIA

PENNSYLVANIA COMPOSITE INDEX OF LEADING INDICATORS (Jan 1972=100)



SOURCE: PSU, CENTER FOR REGIONAL BUSINESS ANALYSIS

steady at a seasonally adjusted 4.3 percent. As a result, employment stands just below record highs while unemployment remains near a 15-year low. **Initial claims for unemployment benefits, a leading indicator of jobless trends, have advanced in four of the past five months. If this trend continues, some upward pressure on unemployment may be in the offing.**

The Pennsylvania index of leading indicators has not been able to string together several consecutive months of increases or decreases (chart). **It appears that the economy will neither boom nor bust in coming months. While the rapid growth rates of recent months are unlikely to be repeated, it is also unlikely that the economy is being set up for an especially hard fall. If activity declines later in 1989, it will probably drift slowly downward.**

— William D. Anderson

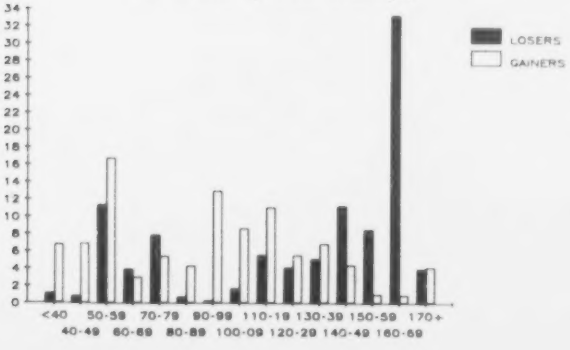
A RESPONSE TO THE "GOOD JOBS/BAD JOBS" DEBATE: THE PENNSYLVANIA PERSPECTIVE

Much attention has been given to the structural changes which have taken place in the Pennsylvania economy in recent years. These changes have resulted in downward pressure on manufacturing job totals although 1988 saw jobs rise slightly to stand just above all-time lows. They have also helped push service-related jobs to record highs. There has been some concern with the associated "tradeoff" related to the wage structure in those industries losing jobs compared to those adding positions. Some will argue that we are losing "good" jobs offering relatively high wages and replacing them with "bad" jobs with less attractive wage packages.

Past issues of the *Pennsylvania Business Survey* have cautioned against such broad generalizations. Recent research conducted in Penn State's Center for Regional Business Analysis, housed in the College of Business Administration, suggests that such generalizations may be misleading. The typical job lost in Pennsylvania between the onset of recovery around 1982/1983 and 1987 occurred in industries with wages 30 percent above the economy-wide average. Such a result is not surprising given the difficulties which faced the high-paying goods-producing industries during that time. The typical job created in Pennsylvania during the period came in industries with wages about 7 percent below-normal.

While there is evidence of a wage tradeoff in recent labor market trends in Pennsylvania, the degree to which it exists is probably not as pronounced as many think. The evidence does not support the argument that the Commonwealth's economy is "deindustrializing" to any great extent and

PERCENTAGE OF GROSS JOB GAINS AND LOSSES BY WAGE PERCENTILES, 1982/1983-1987 (percentiles are wages expressed as a percent of economy-wide average)



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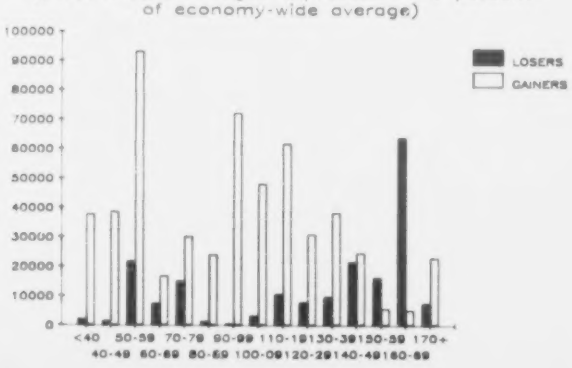

becoming too dependent on low-wage jobs. The tradeoff appears to be between those industries offering above-average wages and those with wages, at worst, which are slightly below-normal. Such a tradeoff is partly the result of the normal operation of labor markets.

Job losses have been relatively large in those industries with wages averaging 150-159 percent of the overall mean (chart). While the majority of jobs lost has occurred in industries offering relatively high wages, there is no similar clustering of job gains in those industries with wage packages at the lower-end of the scale. Although a large number of jobs has been added in industries with wages averaging 50-59 percent of economy-wide norms, a large number has also been created in industries offering wages at least on par with overall averages. The gross gains in jobs in those industries adding workers has offset the gross decline in jobs in those categories reducing payroll in all but two wage percentiles examined (chart). Job losses in industries with wages which have averaged 150-159 and 160-169 percent of the overall mean have more than offset the gains in industries with similar wages. In all other cases, including those industries with above-average wages (i.e., wages which have averaged 100-149 and 170+ percent of the economy-wide norm), job gains have been more pronounced than job losses in absolute terms.

At the least, these trends suggest that generalizations regarding the "good jobs/bad jobs" debate are suspect. This is especially true in light of the significant differences in the performances of individual sectors and industries. Industry-level data are required to arrive at adequate conclusions. The information highlighted above represents the Center for Regional Business Analysis' view of the issues surrounding the debate.

— *William D. Anderson*

(This is a summary of a paper of the same title authored by Mr. Anderson. The 39-page study examines the issues presented above in great detail. It also looks at the tradeoff issue as it relates to individual sectors and more than 250 industries. The paper represents the fourth installment of the Pennsylvania Economic Studies *series. It is currently available for $5 per copy by writing to: The Pennsylvania State University, College of Business Administration, Center for Regional Business Analysis, 108 Business Administration Building II, University Park, PA 16802. Please make check or money order payable to "The Pennsylvania State University.")*

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